

DOCUMENT RESUME

02177 - [A1392398]

Examination of the Rural Telephone Bank's Financial Statements for the 15-Month Period Ended September 30, 1976. FOD-77-02; B-159292. May 12, 1977. 20 pp.

Report to the Congress; by Elmer B. Staats, Comptroller General.

Issue Area: Accounting and Financial Reporting (2800).

Contact: Field Operations Div.

Budget Function: Natural Resources, Environment, and Energy: Energy (305); Miscellaneous: Financial Management and Information Systems (1002).

Organization Concerned: Department of Agriculture; Rural Telephone Bank.

Congressional Relevance: House Committee on Agriculture; Senate Committee on Agriculture and Forestry; Congress.

Authority: Rural Electrification Act of 1936, as amended (P.L. 92-12; 7 U.S.C. 901). P.L. 92-324. P.L. 93-32. 7 U.S.C. 943 (b).

The financial statements of the Rural Telephone Bank (RTB) present fairly its financial position as of September 30, 1976, the results of its operations, and the changes in its financial position for the 15-month period then ended. Investigation of the Bank included examinations of the statement of income, expenses, and patronage capital; the statement of changes in financial position; and the statement of patronage capital and reserve for contingencies. Findings/Conclusions: The RTB was established in 1971 to provide for financing or refinancing the construction, improvement, expansion, acquisition, and operation of telephone lines, facilities, or systems in rural areas. The Governor of RTB is authorized to make loans, in conformance with policies approved by the board of directors, to corporations and public bodies which have received a Rural Electrification Administration (REA) loan or loan commitment or have been certified by the Administrator of REA to be eligible for a loan or loan commitment. As of September 30, 1976, total loan commitments of \$763,476,823 had been approved, and advances of \$405,137,101 had been made to borrowers against these commitments. During the 15-month period the sale of the debentures to the Secretary of the Treasury provided \$68,663,000; class A stock sales to the U.S. Government amounted to \$37,500,000; and interest earned came to \$27,975,349. The cumulative debenture borrowings from the Secretary of the Treasury came to \$200,733,000 at various interest rates. (Author/SC)

02177

2398



REPORT TO THE CONGRESS

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

Examination Of The Rural Telephone Bank's Financial Statements For The 15-Month Period Ended September 30, 1976

Department of Agriculture

The financial statements of the Rural Telephone Bank present fairly its financial position as of September 30, 1976, the results of its operations, and the changes in its financial position for the 15-month period.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-159292

To the President of the Senate and the
Speaker of the House of Representatives

This report summarizes the results of our examination of the financial statements of the Rural Telephone Bank, Department of Agriculture, for the 15-month period ended September 30, 1976.

We made our examination pursuant to the Government Corporation Control Act (31 U.S.C. 841).

Copies of the report are being sent to the Director, Office of Management and Budget; the Secretaries of Agriculture and the Treasury; and the Governor, Rural Telephone Bank.

A handwritten signature in black ink, reading "Thomas B. Strick".

Comptroller General
of the United States

D I G E S T

The Rural Telephone Bank, an agency of the United States, was established in 1971 by an amendment to the Rural Electrification Act of 1936 (7 U.S.C. 901), to provide for financing or refinancing the construction, improvement, expansion, acquisition, and operation of telephone lines, facilities, or systems in rural areas.

The Administrator of the Rural Electrification Administration serves as both the Governor and the chief executive officer of the Bank. The board of directors, known as the Telephone Bank Board, consists of 13 members. Five board members are appointed by the President and six are elected by the Bank's stockholders. The Administrator of the Rural Electrification Administration and the Governor of the Farm Credit Administration serve as ex-officio members of the board.

GAO is required by the Government Corporation Control Act (31 U.S.C. 841) to examine the financial transactions of the Bank.

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion, the Bank's financial statements present fairly its financial position at September 30, 1976, and June 30, 1975, and the results of its operations and changes in financial position for the periods then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

C o n t e n t s

	<u>Page</u>
DIGEST	i
CHAPTER	
1 INTRODUCTION	1
Management and administration	1
Capitalization	2
Conversion of ownership, operation, and control of the Bank	3
Borrowing power	4
2 OPERATIONS	5
Lending power	5
Sources of funds	6
Costs of operations	7
3 SCOPE OF EXAMINATION AND OPINION ON FINANCIAL STATEMENTS	8
Scope of examination	8
Opinion on financial statements	8
FINANCIAL STATEMENTS	
Schedule	
1 Rural Telephone Bank statement of financial condition, September 30, 1976, and June 30, 1975	10
2 Rural Telephone Bank statement of income, expenses, and patronage capital for the 15-month period ended September 30, 1976, the transition quarter ended September 30, 1976, and the fiscal years ended June 30, 1976 and 1975	12
3 Rural Telephone Bank statement of changes in financial position for the 15-month period ended September 30, 1976, and the fiscal year ended June 30, 1975	13
4 Rural Telephone Bank statement of patronage capital and reserve for contingencies for the fifteen-month period ended September 30, 1976, and the fiscal year ended June 30, 1975	14
Notes to financial statements	15

ABBREVIATIONS

GAO General Accounting Office
REA Rural Electrification Administration
RTB Rural Telephone Bank .

CHAPTER 1

INTRODUCTION

Public Law 92-12, dated May 7, 1971, established the Rural Telephone Bank (RTB) as a corporate body and agency of the United States to meet the growing capital needs of rural telephone systems. The law further amended the Rural Electrification Act of 1936, (7 U.S.C. 901), which, since 1949, has authorized the Administrator of the Rural Electrification Administration (REA), Department of Agriculture, to make loans for the purpose of furnishing and improving telephone service in rural areas.

The purposes of RTB are to:

- Make loans to eligible borrowers for the construction, improvement, expansion, acquisition, and operation of telephone lines, facilities, or systems in rural areas.
- Obtain funds to the extent feasible, from non-Federal sources through the sale of stock and debentures to supplement REA's telephone loan program.
- Conduct its operations to the extent practicable on a self-sustaining basis.

On June 30, 1972, Public Law 92-324 amended the Rural Electrification Act to give the Secretary of the Treasury the authority to purchase RTB debentures. This amendment was passed to enhance RTB's ability to obtain funds on favorable terms and at the lowest possible costs.

On May 11, 1973, Public Law 93-32 amended the Rural Electrification Act of 1936 to establish a revolving fund within REA to provide funds for rural electric and telephone systems. Assets of the fund include shares of RTB capital stock purchased by the United States.

MANAGEMENT AND ADMINISTRATION

RTB, an agency of the U.S. Government, is supervised and directed by the Secretary of Agriculture. The administrator of REA, who is referred to as the Governor of the Telephone Bank, serves as the chief executive officer of RTB.

A board of directors, known as the Telephone Bank Board, manages RTB. The board is comprised of two ex-officio members, five members appointed by the President, and six members elected by stockholders of RTB. Current board

members and those who served during the 15-month period ended September 30, 1976, are listed in appendix I.

CAPITALIZATION

RTB issues three classes of capital stock: (1) class A to the Government, (2) class B to RTB borrowers, and (3) class C to borrowers, or to corporations and public bodies eligible to become borrowers, or to organizations controlled by such borrowers, corporations, and public bodies.

Class A stock

Class A stock, at a par value of \$1 a share, is issued only to the Administrator of REA on behalf of the United States in exchange for capital furnished to RTB. Beginning with fiscal year 1971, the Congress is authorized to appropriate such amounts, not to exceed \$30 million annually, for purchases by REA until the class A stock equals \$300 million. Cumulative appropriations through September 30, 1976, and class A stock outstanding as of September 30, 1976, totaled \$157,500,000.

Class A stock must be redeemed and retired by RTB as soon as practicable after September 30, 1985, but not to the extent that its board of directors determines such retirement will impair RTB's operations. The minimum amount of class A stock that must be retired each year after 1985, and after the amount of class A and class B stock issued totals \$400 million, cannot be less than the amount of class B stock sold by RTB during the year.

Class A stock issued is entitled to an annual 2-percent return on amounts outstanding. Such returns are cumulative and are payable annually to the Treasury as miscellaneous receipts. The return paid during the 15-month period ended September 30, 1976, exceeded \$3.7 million.

Class B stock

Class B stock, at a par value of \$1 a share, shall be held only by recipients of loans from RTB. Loan recipients are required to invest in class B stock at an amount equal to 5 percent of any loan obtained from RTB, except for that part of the loan needed to purchase the class B stock.

No dividends are payable on class B stock. All holders of the stock are entitled to patronage refunds in the form of class B stock. Patronage refunds are made from net income after provisions for return on class A stock and cash dividends on class C stock, and after provisions are made for a contingency reserve.

During the 15-month period ended September 30, 1976, RTB issued \$8,519,114 of class B stock. Of this amount, \$7,440,021 was issued as a patronage refund from net income assignable to the fiscal year ended June 30, 1976. The cumulative class B stock issued through September 30, 1976, was \$29,818,310.

Class C stock

Class C stock, at a par value of \$1,000 a share, is issuable only to borrowers; to corporations and public bodies eligible to borrow; or to organizations controlled by such borrowers, corporations, and public bodies. Dividends are payable only from income, at a rate determined by the board of directors. No dividends may be declared on class C stock until arrearages, if any, have been paid to holders of cumulative class A stock. Also, until all class A stock has been retired, the board of directors may not declare any dividends on class C stock at an annual rate in excess of the then-current average rate payable on RTB's telephone debentures.

RTB issued \$1,000 of class C stock during the fiscal year ended June 30, 1976. Total class C stock issued through September 30, 1976, was \$546,000. Dividends of \$61,375 were paid during the 15-month period ended September 30, 1976.

CONVERSION OF OWNERSHIP, OPERATION, AND CONTROL OF THE BANK

Whenever 51 percent of the maximum amount of class A stock issued to the United States, and outstanding at any time after September 30, 1985, has been fully redeemed and retired:

- The powers and authority of the Administrator of REA as Governor of RTB will be vested in the Telephone Bank Board, and the board shall select the Governor of RTB.
- The five board members designated by the President will cease to be members.
- RTB will no longer be an agency of the United States, but will continue as an instrumentality of the United States and a banking corporation.

When all class A stock has been fully redeemed and retired, loans made by RTB will no longer be subject to restrictions imposed by the Rural Electrification Act. However, the Congress has reserved the right to review

the continued operations of RTB after all class A stock has been fully redeemed and retired.

BORROWING POWER

RTB is authorized by statute to obtain funds through the public or private sale of its bonds, debentures, notes, and other evidences of indebtedness (collectively called telephone debentures). Telephone debentures may be issued at such times, bear interest at such rates, and contain other terms and conditions as determined by the board of directors. The amount of telephone debentures that may be outstanding at any one time may not exceed 20 times RTB's paid-in capital and retained earnings.

In addition to the above, Public Law 92-324, June 30, 1972, authorized RTB to issue telephone debentures to the Secretary of the Treasury. Each purchase of telephone debentures by the Secretary must yield a return at a rate not less than that determined by the Secretary, taking into consideration the current average yield on outstanding marketable obligations of the United States of comparable maturity.

The Secretary of the Treasury is authorized to sell any of the telephone debentures acquired by him at such price or prices as he shall determine. All purchases and sales of such debentures by the Secretary will be treated as public debt transactions of the United States.

CHAPTER 2

OPERATIONS

LENDING POWER

The Governor of RTB is authorized to make loans, in conformance with policies approved by the board of directors, to corporations and public bodies which have received an REA loan or loan commitment or have been certified by the Administrator of REA to be eligible for a loan or loan commitment.

RTB's loans may be made

- for the same purposes and under the same limitations for which REA loans may be made under section 201 of the Rural Electrification Act. Section 201 of the act authorizes and empowers the Administrator to make loans to persons now providing, or who in the future will provide, telephone service in rural areas, for the purpose of financing or refinancing the improvement, expansion, construction, acquisition, and operation of telephone lines, facilities, or systems to furnish and improve telephone service in rural areas;
- for the purpose of financing or refinancing the construction, improvement, expansion, acquisition, and operation of telephone lines, facilities, or systems, in order to improve the efficiency, effectiveness, or financial stability of borrowers financed under this act; and
- for the purchase of class B stock required to be purchased by borrowers under the act.

The act requires that RTB loan funds, in preference to an REA loan, if the borrower is eligible for such a loan, and funds are available from RTB. However, all loans for telephone system facilities which, on the average, will have three or fewer subscribers for each mile of telephone line, will be made by REA; but this provision will not preclude borrowers' electing to take loans from RTB.

Loans will not be made by RTB unless its Governor certifies that in his judgment (1) the loan has adequate security and will be repaid within the time agreed and (2) the borrower has the capability of producing net income or margins before interest at least equal to 150 percent of the interest requirement on all of its outstanding and proposed loans, or such higher percent as may be fixed by the board of directors.

Loans under this act must be fully repaid over a period not to exceed 50 years. As of September 30, 1976, total loan commitments of \$763,476,823 had been approved, and advances of \$405,137,101 had been made to borrowers against these commitments. Generally, loan terms require repayment within 35 years.

Without the Governor's approval, RTB borrowers may not sell or dispose of their property, rights, or franchises acquired under the provisions of the act until any loans obtained from RTB, including all interest and charges, have been repaid.

Loans generally will be on such terms and conditions as RTB's Governor will determine; however, loans will bear interest at the "cost of money rate," which is defined as the average cost of money to RTB as determined by the Governor, but not less than 5 percent per annum.

SOURCES OF FUNDS

RTB's operating funds are provided primarily from (1) the sale of telephone debentures to the Secretary of the Treasury, (2) the sale of class A stock to the U.S. Government, and (3) interest earned on its outstanding loans. During the 15-month period ended September 30, 1976, the sale of the debentures provided \$68,663,000; class A stock, \$37,500,000; and interest earned, \$27,975,349.

At September 30, 1976, cumulative debenture borrowings from the Secretary of the Treasury amounted to \$200,733,000 at various interest rates, as shown below.

<u>Interest rate</u>	<u>From inception through</u>		<u>15-month period ended September 30, 1976</u>
	<u>September 30, 1976</u>	<u>June 30, 1975</u>	
	<u>Advance amount</u>	<u>Advance amount</u>	<u>Increase</u>
7.250	\$ 5,071,000	\$ 5,071,000	-
7.375	7,667,000	7,667,000	-
7.500	8,892,000	8,892,000	-
7.625	10,461,000	10,461,000	-
7.875	20,191,000	20,191,000	-
8.000	11,092,000	9,278,000	1,814,000
8.125	41,301,000	23,194,000	18,107,000
8.250	42,403,000	10,367,000	32,036,000
8.375	31,107,000	23,498,000	7,609,000
8.500	16,609,000	8,229,000	8,380,000
8.625	717,000	-	717,000
8.750	5,222,000	5,222,000	-
	<u>\$200,733,000</u>	<u>\$132,070,000</u>	<u>\$68,663,000</u>

The interest cost of money borrowed in the form of debentures during the 15-month period ended September 30, 1976, ranged between 8.0 and 8.625 percent a year. The total interest cost to RTB during the 15-month period was \$16,187,712. Debentures may be repaid to the Treasury at any time, but they must be repaid in the order of the oldest advance outstanding being repaid first.

COSTS OF OPERATIONS

RTB is authorized by 7 U.S.C. 943(b), as amended, to partially or jointly utilize the facilities and the services of employees of REA or any other agency of the Department of Agriculture without cost. Such costs, the amounts of which are not readily determinable, generally are for salary and related benefits, travel, and automatic data processing services. REA does not maintain subsidiary accounts of the cost of services provided RTB.

CHAPTER 3

SCOPE OF EXAMINATION AND OPINION

ON FINANCIAL STATEMENTS

SCOPE OF EXAMINATION

We have examined the statement of financial condition for September 30, 1976; and for the 15-month period ended September 30, 1976, we have examined (1) the statement of income, expenses, and patronage capital; (2) the statement of changes in financial position; and (3) the statement of patronage capital and reserve for contingencies. Our examination was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such auditing procedures as we considered necessary in the circumstances. We also reviewed the system of internal control, and applicable laws, rules, and regulations governing the policies and restrictions under which RTB operated.

We previously examined and reported on RTB's financial statements for the fiscal year ended June 30, 1975.

Public Law 93-344 (88 Stat. 321), approved July 12, 1974, changed the U.S. Government's fiscal year from July 1 through June 30 to October 1 through September 30. The act, known as the Congressional Budget Act of 1974, affected the comparability of the financial statements included in this report. The statements for the fiscal year ended June 30, 1975, are for a 12-month period, and those for the period ended September 30, 1976, are for a 15-month period.

OPINION ON FINANCIAL STATEMENTS

In our opinion, the accompanying financial statements (schedules 1 through 4) present fairly the financial position of the Rural Telephone Bank at September 30, 1976, and June 30, 1975; and its income, expenses, and patronage capital, and changes in financial position for the periods then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

FINANCIAL STATEMENTS

RURAL TELEPHONE BANKSTATEMENT OF FINANCIAL CONDITIONSEPTEMBER 30, 1976, and JUNE 30, 1975ASSETS

	September 30, <u>1976</u>	June 30, <u>1975</u>
CASH:		
With U.S. Treasury and on hand	\$ 268,259	\$ 4,660,227
INVESTMENTS: (notes 1B and 2)		
In U.S. Government securi- ties at amortized cost	4,357,814	7,405,064
Accrued interest on securi- ties	<u>59,639</u>	<u>137,787</u>
Total investments	4,417,503	7,542,851
LOANS RECEIVABLE: (notes 1C and 3)		
Loans receivable	399,336,827	273,475,492
Accrued interest on loans	<u>2,871,701</u>	<u>1,546,524</u>
	402,208,528	275,022,016
Less: Allowance for possible losses (note 1D)	<u>407,000</u>	<u>197,000</u>
Net loans receivable	401,801,528	274,825,016
OTHER PREPAYMENTS AND DEFERRED CHARGES	<u>247</u>	<u>521</u>
Total assets	<u>\$406,487,537</u>	<u>\$287,028,615</u>

(The notes on pages 15 to 18 are an integral part of this statement.)

LIABILITIES, INVESTMENT, AND EQUITY

LIABILITIES:

Current:

Accounts payable	\$	7,676	\$	4,542
Accrued interest on loans payable to U.S. Treasury		<u>3,956,375</u>		<u>3,839,951</u>
Total current liabilities		3,964,051		3,844,493

CONTINGENT LIABILITIES (note 4)

INVESTMENT OF THE UNITED STATES GOVERNMENT

Long-term advances from U.S. Treasury (note 5)	\$200,733,000	132,070,000
Class A stock	<u>157,500,000</u>	<u>120,000,000</u>
Total investment of the U.S. Government	358,233,000	252,070,000

EQUITY OF THE PUBLIC

Capital stock:

Class B stock -		
Total subscriptions	36,367,628	26,560,735
Less: Unissued	<u>10,649,730</u>	<u>5,921,930</u>
Subscriptions paid	25,717,898	20,638,805
Patronage refund	<u>4,100,412</u>	<u>660,391</u>
Total Class B stock issued	29,818,310	21,299,196
Class C stock	<u>546,000</u>	<u>545,000</u>
Total capital stock issued	30,364,310	21,844,196
Patronage capital - current (note 1E)	-	5,345,357
Reserve for contingency (note 1E.1)	<u>13,926,176</u>	<u>3,924,569</u>
Total equity of the public	<u>44,290,486</u>	<u>31,114,122</u>
Total liabilities, investment and equity	<u>\$406,487,537</u>	<u>\$287,028,615</u>

(The notes on pages 15 and 18 are an integral part of this statement.)

RURAL TELEPHONE BANK

STATEMENT OF INCOME, EXPENSES AND PATRONAGE CAPITAL
FOR THE 15-MONTH PERIOD ENDED SEPTEMBER 30, 1976,
THE TRANSITION QUARTER ENDED SEPTEMBER 30, 1976,
AND THE FISCAL YEARS ENDED JUNE 30, 1976, AND 1975

	15-month period ended <u>9/30/76</u>	Transition quarter ended <u>9/30/76</u>	Fiscal year ended <u>6/30/76</u>	Fiscal year ended <u>6/30/75</u>
INCOME:				
Interest earned on loans	\$27,975,349	\$6,505,321	\$21,470,028	\$12,930,194
Interest earned on invest- ments	<u>502,231</u>	<u>76,838</u>	<u>425,393</u>	<u>780,497</u>
Total income	28,477,580	6,582,159	21,895,421	13,710,691
EXPENSES:				
Operating costs incurred:				
Interest expense on funds borrowed from U.S. Treasury	16,187,712	3,956,375	12,231,337	5,878,337
Directors' fees	13,050	4,350	8,700	11,300
Directors' travel	14,014	4,681	9,333	10,825
Postage	874	361	513	477
CAO audit	16,000	-0-	16,000	15,000
Provision for possible losses (note 1D)	210,000	40,000	170,000	128,000
Proportionate share of telephone program expenses	170,000	-0-	170,000	-0-
Miscellaneous	<u>2,630</u>	<u>629</u>	<u>2,001</u>	<u>2,974</u>
Total expenses	<u>16,614,280</u>	<u>4,006,396</u>	<u>12,607,884</u>	<u>6,046,913</u>
NET INCOME FOR THE PERIOD	11,863,300	2,575,763	9,287,537	7,663,778
Less: Provisions for return on Class A stock	<u>3,705,654</u>	<u>791,228</u>	<u>2,914,426</u>	<u>2,318,421</u>
PATRONAGE CAPITAL FOR THE PERIOD (note 1E)	<u>\$ 8,157,646</u>	<u>\$1,784,535</u>	<u>\$ 6,373,111</u>	<u>\$5,345,557</u>

(The notes on pages 15 to 18 are an integral part of this statement.)

RURAL TELEPHONE BANK
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE FIFTEEN MONTH PERIOD ENDED SEPTEMBER 30, 1976.
AND THE FISCAL YEAR ENDED JUNE 30, 1975

	<u>September 30, 1976</u>	<u>June 30, 1975</u>
FUNDS PROVIDED:		
Income:		
Interest earned: Loans	\$ 27,975,349	\$ 12,930,194
Investments	502,231	780,497
Sale of stock: Class A	37,500,000	30,000,000
Class B	5,079,093	9,347,060
Class C	1,000	12,000
Borrowings from U.S. Treasury	68,663,000	82,648,000
Principal collected on loans	5,047,008	535,553
Net change in U.S. Government securities at amortized cost	<u>3,047,250</u>	<u>3,259,033</u>
	<u>147,814,931</u>	<u>139,812,337</u>
FUNDS APPLIED:		
Operating expenses (less allowance for bad debts)	16,404,280	5,918,913
Advances on loan commitments	130,908,343	129,877,866
Return on Class A stock	3,705,654	2,318,421
Dividend on Class C stock	<u>61,375</u>	<u>26,650</u>
	<u>151,079,652</u>	<u>138,141,850</u>
INCREASE (DECREASE) IN FINANCIAL POSITION	\$ <u>(3,264,721)</u>	\$ <u>1,670,487</u>
ANALYSIS OF NET CHANGE IN FINANCIAL POSITION:		
Increase (decrease) - other assets:		
Cash	(4,391,968)	4,257,800
Accrued interest on U.S. Government securities	(78,098)	(71,770)
Accrued interest on loans	1,325,177	509,456
Prepaid and deferred items	<u>(274)</u>	<u>(477)</u>
	<u>(3,145,163)</u>	<u>4,695,009</u>
Increase (decrease) - other liabilities:		
Accounts payable	3,134	4,151
Accrued interest on loans payable to U.S. Treasury	<u>116,424</u>	<u>3,020,371</u>
	<u>119,558</u>	<u>3,024,522</u>
NET CHANGE IN FINANCIAL POSITION	\$ <u>(3,264,721)</u>	\$ <u>1,670,487</u>

(The notes on pages 15 to 18 are an integral part of this statement.)

RURAL TELEPHONE BANK

STATEMENT OF PATRONAGE CAPITAL AND RESERVE FOR CONTINGENCIES

FOR THE FIFTEEN MONTH PERIOD ENDED SEPTEMBER 30, 1976,

AND THE FISCAL YEAR ENDED JUNE 30, 1975

September 30, 1976 June 30, 1975

PATRONAGE CAPITAL AND RESERVE
FOR CONTINGENCIES

Beginning of period		\$ 9,269,926	\$4,497,093
ADD: Patronage capital for period		<u>8,157,646</u>	<u>5,345,357</u>
Total available for distribution		17,427,572	9,842,450
DEDUCT: Class C stock dividend:			
Paid--August 26, 1974			26,650
September 4, 1975	\$ 27,250		
September 15, 1976	<u>34,125</u>	61,375	
Patronage refund in form of Class B stock (note 1E.1):			
Paid--August 26, 1974			545,874
September 4, 1975	1,293,017		
September 15, 1976	<u>2,147,004</u>	<u>3,440,021</u>	
End of period. (See GAO note.)		<u>\$13,926,176</u>	<u>\$9,269,926</u>

(The notes on pages 15 to 18 are an integral part of this statement.)

GAO note: As discussed in note 1E of the Bank's notes to the financial statements, the balance of patronage capital, after dividend distribution, may be transferred to the reserve for contingencies. As of September 30, 1976, and June 30, 1975, the Bank's Board of Directors had approved the following distribution of patronage capital.

	<u>September 30, 1976</u>	<u>June 30, 1975</u>
Patronage capital	\$ -	\$5,345,357
Reserve for contingencies	<u>13,926,176</u>	<u>3,924,569</u>
Total	<u>\$13,926,176</u>	<u>\$9,269,926</u>

RURAL TELEPHONE BANK

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. General--The accounting and reporting policies of the Rural Telephone Bank conform in all material respects with the accounting principles, standards and related requirements prescribed by the Comptroller General of the United States, and requirements of the Office of Management and Budget, the Department of the Treasury, and the Government Corporation Control Act, and other applicable legislation.
- B. Investments--U.S. Government securities are stated at cost adjusted for amortization of premiums and discounts, both computed by the straight-line method. The amortization of premiums and discounts are debited and credited, respectively, to interest earned on investments.
- C. Loans receivable--The notes evidencing indebtedness of the Bank's loans are generally for 35 years and are secured by a first mortgage, which also secures equally and ratably notes evidencing indebtedness on REA loans. Interest earned on loans is credited to revenue on an accrual basis based upon the principal amount outstanding.
- D. Allowance for possible losses on loans and interest receivable--The 1969 U.S. Treasury tax formula that commercial banks reporting to the Federal Reserve System are required to use in making provisions for possible loan losses is being used to determine quarterly adjustments to the allowance for possible losses on loans and interest receivable. The allowance for possible losses ratio is adjusted quarterly to 0.006 percent of the loans outstanding at the end of each quarter multiplied by the number of quarters elapsed since June 30, 1972, until a maximum allowance of 0.6 percent of loans and interest receivable has been attained. Quarterly adjustments to increase the ratio of the allowance to outstanding loans and interest receivable are charged to expense.

E. Patronage capital--Patronage capital consists of net income in excess of the amount necessary to pay a 2 percent per annum return on class A stock into miscellaneous receipts of the U.S. Treasury and any dividends paid to holders of class C stock. Except for the requirements of Resolution Number 76T-5, which requires all of the patronage capital assignable for the transition quarter (actual patronage capital for transition quarter amounted to \$1,784,535) to be placed in the Contingency Reserve, patronage capital is distributed as follows in accordance with the provisions of Section 8.2 of Article VIII of the Bank's bylaws:

- (1) Reserve for contingency--After the close of each fiscal year not less than 10 percent of the patronage capital, the amount to be determined by the Board of Directors, shall be placed in a contingency reserve until such time as this reserve shall equal at least 50 percent of the outstanding capital stock. The reserve shall be used to offset and liquidate operating losses and deficits in a systematic manner as determined by the Board of Directors.
- (2) Patronage refunds--The balance of patronage capital shall be distributed to each holder of class B stock as patronage refunds in the form of class B stock as soon as practicable after the close of each fiscal year.

2. INVESTMENTS

The market value of U.S. Government securities at September 30, 1976, and June 30, 1975, was \$4,234,484 and \$7,173,111, respectively. Bid price quotations published by the Wall Street Journal and the First National City Bank, New York, New York, were used in determining market value. The bank intends to hold these securities, \$335,000 of which will mature during the current fiscal year, to maturity.

3. LOANS RECEIVABLE

Loan receivable were as follows:

	September 30, <u>1976</u>	June 30, <u>1975</u>
Cumulative advances on commitments	\$405,137,101	\$274,228,758
Cumulative principal repayments	<u>5,800,274</u>	<u>753,266</u>
Loans receivable	<u>\$399,336,827</u>	<u>\$273,475,492</u>

4. UNADVANCED LOAN COMMITMENTS

Liabilities do not include the following unadvanced loan commitments, which are contingent liabilities:

	September 30, <u>1976</u>	June 30, <u>1975</u>
Cumulative loan commitments	\$763,476,823	\$557,532,080
Cumulative advances on commitments	<u>405,137,101</u>	<u>274,228,758</u>
Unadvanced on commitments	<u>\$358,339,722</u>	<u>\$283,303,322</u>

5. LOANS PAYABLE TO U.S. TREASURY

On July 26, 1973, the Governor executed an open end note payable to the Secretary of the Treasury to cover loans to be obtained under Section 407 of the RE Act, as amended (7 USC 947). Advances on the note in each fiscal year are to be repaid within 50 years from the June 30th following the date of advance, at the rate of interest established by the Secretary of the Treasury for the calendar month in which each advance is made. Repayments may be made at any time before maturity with application to the oldest advance outstanding. The loans payable to U.S. Treasury by interest rate as of September 30, 1976, and their maturity dates, are as follows:

Interest rate	Amounts borrowed (thousands)					June 30, 2027	Weighted cost
	Total	June 30, 2024	June 30, 2025	June 30, 2026	June 30, 2027		
7.250	\$ 5,071	\$ 5,071	\$ -0-	\$ -0-	\$ -0-	\$ -0-	8.22%
7.375	7,667	7,667	-0-	-0-	-0-	-0-	
7.500	8,892	8,892	-0-	-0-	-0-	-0-	
7.625	10,461	10,461	-0-	-0-	-0-	-0-	
7.875	20,191	9,466	10,725	-0-	-0-	-0-	
8.000	11,092	-0-	9,278	1,814	-0-	-0-	
8.125	41,301	7,865	15,329	15,583	2,524	2,524	
8.250	42,403	-0-	10,367	25,215	6,821	6,821	
8.375	31,107	-0-	23,498	7,609	-0-	-0-	
8.500	16,609	-0-	8,229	8,380	-0-	-0-	
8.625	717	-0-	-0-	717	-0-	-0-	
8.750	5,222	-0-	5,222	-0-	-0-	-0-	
Total	\$200,733	\$49,422	\$82,648	\$59,318	\$9,345		

RURAL TELEPHONE BANK BOARD OF DIRECTORS

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
EX-OFFICIO MEMBERS:		
David A. Hamil, Administrator, REA	May 1971	Present
W. Malcolm Harding, Governor, Farm Credit Administration	Nov. 1974	Present
MEMBERS REPRESENTING THE DEPARTMENT OF AGRICULTURE:		
Hon. Thomas K. Cowden, Counselor to the Secretary of Agriculture (note a)	May 1974	Present
William W. Erwin, Assistant Sec- retary of Agriculture	July 1973	Aug. 1975
Dr. Don Paarlberg, Director, Agricultural Economics	May 1976	Present
Hon. William H. Walker, III, Assistant Secretary for Rural Development	May 1976	Present
Clayton K. Yeutter, Assistant Secretary of Agriculture	June 1974	Aug. 1975
MEMBERS REPRESENTING THE PUBLIC:		
Hon. Paula F. Hawkins, Commissioner, Florida Public Service Commission	July 1973	Present
Charles H. Pillard, President, International Brotherhood of Electrical Workers	Sept. 1971	Present
MEMBERS REPRESENTING COOPERATIVE- TYPE ENTITIES:		
Roy C. Boecher, Manager, Pioneer Telephone Cooperative, Inc., Kingfisher, Oklahoma	Sept. 1972	Sept. 1976
Harold C. Ebaugh, Manager, Triangle Telephone Cooperative Association, Inc., Havre, Montana	Feb. 1975	Sept. 1976
John A. McAllister, President, West Carolina Rural Telephone Cooperative, Inc., Mt. Carmel, South Carolina	Sept. 1974	Present

<u>Tenure of office</u>	
<u>From</u>	<u>To</u>

MEMBERS REPRESENTING COOPERATIVE-
TYPE ENTITIES: (continued)

Glenn Nelson, Director, Farmers
Mutual Telephone Company,
Bellingham, Minnesota

Sept. 1976	Present
------------	---------

Maurice Woodward, Director,
Hancock Rural Telephone Cor-
poration, Maxwell, Indiana

Sept. 1976	Present
------------	---------

MEMBERS REPRESENTING COMMERCIAL-
TYPE ENTITIES:

Glenn W. Bergland, President,
Lake Mills Telephone Company
Lake Mills, Iowa

Sept. 1974	Present
------------	---------

Arndon O. Haynes, President,
Mashell Telephone Company, Inc.,
Eatonville, Washington

Sept. 1972	Present
------------	---------

Harold G. Payne, President,
Telephone Utilities of
Pennsylvania, Inc., Export,
Pennsylvania

Sept. 1971	Present
------------	---------

a/ Hon. Thomas K. Cowden also served from September 1971 to February 1973.